

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

FIRST SET OF INFORMATION REQUESTS OF
THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
TO SOUTHERN UNION COMPANY
D.T.E. 02-27

Pursuant to 220 C.M.R. § 1.06 (6)(c), the Department of Telecommunications and Energy ("Department") submits to The Southern Union Company ("Southern Union" or "Company") the following Information Requests:

INSTRUCTIONS

The following instructions apply to this set of Information Requests and all subsequent Information Requests issued by the Department to the Company in this proceeding.

1. Each request should be answered in writing on a separate three-hole punched page with a recitation of the request, a reference to the request number, the docket number of the case and the name of the person responsible for the answer.
2. Please do not wait for all answers to be completed before supplying answers. Provide the answers as they are completed.
3. These requests shall be deemed continuing so as to require further supplemental responses if the Company or its witness receives or generates additional information within the scope of these requests between the time of the original response and the close of the record in this proceeding.
4. The term "provide complete and detailed documentation" means:

Provide all data, assumptions and calculations relied upon. Provide the source of and basis for all data and assumptions employed. Include all studies, reports and planning documents from which data, estimates or assumptions were drawn, and support for how the data or assumptions were used in developing the projections or estimates. Provide and explain all supporting work-papers.
5. The term "document" is used in its broadest sense and includes, without limitation, writings, drawings, graphs, charts, photographs, phono-records, microfilm, microfiche, computer printouts, correspondence, handwritten notes, records or reports, bills, checks, articles from journals or other sources and other data compilations from which information can be obtained and all copies of such documents that bear notations or other markings that differentiate such copies from the original.

6. If the Company finds that any one of these requests is ambiguous, please notify the Hearing Officer so that the request may be clarified prior to the preparation of a written response.
7. Please serve a copy of the responses on Mary Cottrell, Secretary of the Department; also submit one (1) copy of the response to: (1) Elizabeth Cellucci, Hearing Officer; (2) Glenn Shippee, Rates and Revenues Division; (3) George Yiankos, Gas Division; (4) Joseph Passagio, Rates and Revenues Division; (5) Paul Osborne, Rates and Revenues Division; (6) Miguel Maravi, Rates and Revenues Division.
8. Responses are due by 5:00 p.m. Friday, May 3, 2002.

- DTE 1-1 Refer to Exhibit SU-1 at 3, lines 3 to 16. Please provide the estimated common stock valuation for 2002, 2003 and 2004 using the following assumptions: (1) the Company continues its policy of distributing an annual 5% stock dividend during those years, and (2) the Company's expected market price per share as of December 31 of each year.
- (A) Explain how the above valuations are consistent with the expectations of the capital market with respect to the Company and to the gas industry.
 - (B) Discuss whether the Company's common stock could be overvalued or undervalued and how this may distort or affect the fair structural value of the Company.
- DTE 1-2 Refer to Exhibit SU-1 at 3, line 18. The "as of" date the Company states is December 31, 2002. Does the Company mean "December 31, 2001" ?
- DTE 1-3 Refer to Exhibit SU-1 at 3, line 18. Please reconcile the number of shares quoted by the Company with the \$52,009,927 outstanding shares listed in Exhibit SU-4 at 4, line 23. Additionally, please provide the source of the 54,686,000 figure used for outstanding shares in Exhibit SU-4.
- DTE 1-4 Refer to Exhibit SU-1 at 5-6. Please explain how the use of equity versus debt financing reduces the overall cost of capital.
- DTE 1-5 Refer to Exhibit SU-1 at 6. Please list any other natural gas utilities which pay dividends in this form and stock rather than cash.
- DTE 1-6 Refer to Exhibit SU-1 at 7. Please explain the effect that issuing stock dividends has on the book value per common share of stock.
- DTE 1-7 Refer to Exhibit SU-1 at 8, lines 8 to 15. Please provide a copy of the authorization of the Pennsylvania Public Utilities Commission for the issuance of common stock to accomplish the stock dividend for 2001, 2002 and 2003.
- DTE 1-8 Refer to Exhibit SU-1 at 8, lines 20 to 22. Explain the following statement: "As with other financial operations of the Company, the obligation to obtain the Department's approval of the stock issuance complicates the process and creates significant timing issues within the Company". As part of this response, please provide a timetable depicting the Company's annual stock dividend issuance procedures.
- DTE 1-9 Refer to Exhibit SU-1 at 9, lines 7 to 11. Please provide a detailed explanation of how the common stock issuance of up 10 million shares will enable the

Company to “fund expenditures for the extension and improvement of utility plant and property and customer services enhancements”.

- DTE 1-10 Refer to Exhibit SU-1 at 9, line 20, through page 10, line 11, and to G.L. c. 164, §16, with respect to the “fair structural value” concept described therein. Please provide the following information:
- A) The monthly market value of the Company’s common stock from May 1999 through April 2000, along with an explanation of any significant monthly variations;
 - B) Explain if the Company has a policy of monitoring the variation in the market value of its common stock, along with those actions that the Company would take if the monthly stock price fell significantly outside the target range; and
 - C) Explain how the decreasing market value of the common stock affects the “fair structural value” described in G.L. c. 164, §16. If the market value decline does not affect the “fair structural value”, explain why it would not.
- DTE 1-11 Refer to Exhibit SU-1 at 11, line 16. Please explain why the Company presently has negative retained earnings.
- DTE 1-12 Refer to Exhibit SU-2. Please explain why the pro forma adjustment to premium on capital stock is limited to the par value of the 10 million shares to be issued. As part of this response, please reconcile this treatment with the accounting recognition of the payment of stock dividends shown on page 7 of Exhibit SU-4, which includes an adjustment for premium on common stock.
- DTE 1- 13 Refer to Exhibit SU-3. Please specify the number of and total book value of shares held by each category of owner of the common and preferred shares. Group them as follows: (1) directors and officers; (2) management employees, (3) other employees, (4) institutional investors, (5) individual investors not classified above; and (6) others (if appropriate).
- DTE 1-14 Refer to Exhibit SU-3, page 6. Please provide the following:
- A) Explain the reasons for the difference between the premium on capital stock for the year 2001 of \$677,486,000 and the same account for year 2000 of \$626,251,000.
 - B) Provide the number of shares and the paid-in capital in excess of par value per share associated with the premium on capital stock for 2001

and 2000. Compare and comment on how this excess of par value per share relates to the market value of the share.

- C) Explain the reasons for the Company's repurchase of treasury stocks.
- D) Explain how the Company uses its long term debt.
- E) Provide the monthly debt-equity ratio for the period January 1, 1998 to date, along with complete and detailed documentation including all supporting calculations, work papers, assumptions, etc.
- F) Provide the interest coverage ratio and earnings available for common stock for the years 1998 through 2001.

- DTE 1-15 Refer to Exhibit SU-4 at 4, line 12 (interest expense) and SU-4 at 16 (debt and capital leases). Please allocate the dollar amounts comprising the Interest Expense line to each of the debt and lease types shown in Exhibit SU-4 at 16.
- DTE 1-16 Refer to Exhibit SU-4 at 4, line 14 (other, net income). Please describe the source of the \$90,609,000.
- DTE 1-17 Refer to Exhibit SU-4 at 5, line 6 (cash and cash equivalents). Please explain why the Company had no cash or cash equivalents as of December 31, 2001
- DTE 1-18 Please refer to Exhibit SU-4 at 6 (long-term debt and capital lease obligation). Please explain the change shown from December 31, 2000 to December 31, 2001 (\$5,173,000 to \$526,642,000) in long term debt and capital lease obligation due within one year. Please describe the nature of the debt (term, rate, maker) added by the Company.
- DTE 1-19 Refer to Exhibit SU-4 at 7. Please comment of the financial advisability of declaring a stock dividend which exceeds annual net earnings reduced by net losses, as is the case in the year 2001.
- DTE 1-20 Please refer to Exhibit SU-4 at 7, line 3. Please explain the nature of the \$96,323,000 unrealized loss in investment securities.
- DTE 1-21 Refer to Exhibit SU-4 at 7. Please provide a discussion and analysis of the decline in shareholder equity from \$735,455,000 to \$664,505,000 over 18 months.
- DTE 1-22 Refer to Exhibit SU-4 at 16. Has the \$400 million of debt approved by the Department in D.T.E. 01-32 been issued? If the response is negative, please explain why the debt has not been issued.
- DTE 1- 23 Refer to Exhibit SU-4 at 16. Is the \$485,000,000 term note the note referred to as the 364-day facility note in D.T.E. 01-32 and in other proceedings before the

Department?

- DTE 1-24 In D.T.E. 01-80, the Department noted that it considered the Company's preferred stock of trust to be long-term debt. Has the Company's treatment of this source of capital, with respect to the net plant test for the instant matter, been consistent with the Department's order in D.T.E. 01-80?
- DTE 1-25 Please describe the Company's policy respect to managerial compensation, such as stock options and others forms of compensation.
- DTE 1-26 Refer to Exhibits SU-2, SU-3, and SU-4. Please explain any accounting transactions, including but not limited to any "off-balance sheet" transactions that are not disclosed in these exhibits but could affect the financial performance of the Company.